

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 EB-08 ISO-00 CIAE-00 DODE-00 PM-05

H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01

SP-02 SS-15 USIA-06 AID-05 FRB-03 TRSE-00 XMB-02

OPIC-03 LAB-04 SIL-01 OMB-01 /096 W

-----085651 271043Z /10

R 221549Z AUG 77

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 3127

INFO USDOC WASHDC

AMEMBASSY BONN

AMEMBASSY VIENNA

C O N F I D E N T I A L LAGOS 9512

USDOC FOR MEPD

E.O. 11652: GDS

TAGS: BENC, EMIN, ENRG, GW, NI

SUBJECT: NIGERIA CANCELS ONE OF TWO DIRECT REDUCTION STEEL MILL
PROJECTS IN ECONOMIZING MOVE

1. ECKART E. GOETTE, PRESIDENT, MIDREX CORPORATION, ONE NCNB
PLAZA, CHARLOTTE, NORTH CAROLINA 28280 (TEL 704-373-1600)
VISITED EMBASSY AUGUST 22 TOGETHER WITH MIDREX'S CHIEF OF
ENGINEERING HANS ROHDE AND LURGI-KORF LAGOS LIAISON OFFICER
EUGENIO SONAGGIO. GOETTE INFORMED PETROLOFF THAT SUPREME
MILITARY COUNCIL DECIDED ON AUGUST 17 TO CANCEL PORT HARCOURT
DIRECT REDUCTION STEEL MILL FOR WHICH LURGI AND KORF/MIDREX,
TOGETHER WITH VOEST OF AUSTRIA HAD INITIALLED CONTRACT LAST
FEBRUARY.

2. GOETTE SAID TWO REASONS GIVEN FOR CANCELLATION OF PORT
HARCOURT MILL. FIRST, FINANCIAL CONSTRAINTS LED FMG TO DECIDE
IT CAN ONLY AFFORD ONE OF THE TWO PLANNED DIRECT REDUCTION STEEL
MILLS AT THIS TIME. SECOND, CHAIRMAN OF NEBA HAD INFORMED SMC
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THAT IT IMPOSSIBLE TO HAVE GAS FUELED THERMAL POWER PLANT READY
AT PORT HARCOURT IN TIME TO SUPPLY MILL, WHEREAS THERMAL PLANT
ALREADY UNDER CONSTRUCTION AT SAPELE COULD ACCOMMODATE NEEDS OF
WARRI DIRECT REDUCTION MILL.

3. ACCORDING TO GOETTE, LURGI-KORF/MIDREX-VOEST GROUP (LKMV)
BID ON BOTH WARRI AND PORT HARCOURT MILLS AND WERE ACTUALLY

CHOSEN BY FMG AS NUMBER ONE CONTENDER FOR EITHER ONE. LKMV WAS OFFERED AND ACCEPTED PORT HARCOURT CONTRACT SINCE IT INVOLVED LARGER INVESTMENT. GOETTE WILL THEREFORE ATTEMPT TO CONVINCE MOI PERMSEC AHMED JODA, IN MEETING AFTERNOON AUGUST 22, THAT MIF FMG HAS CHANGED ITS MIND AND INTENDS TO HAVE JUST ONE MILL, IT ONLY FAIR THAT LKMV, AS PREVIOUS FRONT-RUNNER, SHOULD BE AWARDED THE CONTRACT OR AT LEAST HAVE CHANCE TO RESUBMIT BID ON WARRI MILL IN COMPETITION WITH THYSEN-RHEINSTAHL. GOETTE WILL ALSO EMPHASIZE THAT MIDREX PROCESS IS USED IN MOST DIRECT REDUCTION STEEL MILLS CURRENTLY OPERATING AROUND WORLD, WHILE THYSEN'S PUROFER PROCESS IS AS YET UNTESTED IN COMMERCIAL PRODUCTION. AS ADDITIONAL INCENTIVE, LKMV WILL OFFER TO ARRANGE FINANCING IF FMG WISHES, ORIGINL DEAL WAS FOR CASH.

4. GOETTE CONCERNED ABOUT TIMING SINCE THYSEN INVITED TO MEETING IN LAGOS TO WRAP UP FINAL SMALL LOOSE ENDS SEPTEMBER 5, SIMILAR MEETING ORGINALLY SET FOR LKMV SEPTEMBER 12 AND FORMAL CONTRACT SIGNING OCTOBER 1. LKMV WILL NOT ATTEMPT TO CHANGE FMG DECISION IN FAVOR OF WARRI SITE, ALTHOUGH GROUP BELIEVES NEED TO DEVELOP PORT FACILITIES AT WARRI MAY IN PART OFFSET WARRI'S ADVANTAGE IN POWER. MOI PRINCIPAL SECRETARY FOR STEEL MATTERS, D. O. DADE, COMES FROM WARRI AND GROUP FEELS ANY PRESSURE IN FAVOR PORT HARCOURT MIGHT BACK FIRE.

5. EMPHASIZING AMERICAN CONNECTION THROUGH MIDREX, B AND OTHER HIGH LEVEL FMG OFFICIALS TO PRESENT LKMV CASE. PETROLOFF
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ADVISED THAT TOP OFFICIALS LIKELY TO BE OCCUPIED WITH ANTI-APARTHEID CONFERENCE ALL WEEK, AND THAT LOW-KEY APPROACH TO PERMSEC JODA, WHO HAS IMPRESSED EMBASSY AS FAIR MINDED AND CAPABLE, LIKELY TO PRODUCE BEST RESULTS. IF MEETING WITH JODA UNPRODUCTIVE EMBASSY WOULD SEE WHAT ELSE COULD BE DONE.

6. COMMENT. IT APPEARS THAT TOP MILITARY LEADERS AT LAST HEEDING SERMON PREACHED BY TECHNICIANS IN CIVIL SERVICE THAT NIGERIA MUST CHECK HEADLONG SPENDING AND BEGIN TO LIVE WITHIN ITS MEANS. MINISTRY OF FINANCE OFFICIALS HAVE FOR SOME TIME URGED THAT EXPENDITURES SHOULD BE CUT ACROSS THE BOARD. NIGERIAN NATIONAL PETROLEUM CORPORATION OFFICIALS HAVE APPARENTLY SUCCEEDED IN CONVINCING SMC THAT NIGERIA'S OIL RESERVES ARE NOT LIMITLESS. RECENT DROP IN OIL PRODUCTION, ATTRIBUTED TO OVERPRICING IN FACE OF TEMPOARY WORLD OIL GLUT AND CONSEQUENT WEAK DEMAND, MAY HAVE BEEN TOLERATED IF NOT POSITIVELY ENCOURAGED BY FMG IN NAME OF CONSERVATION DESPITE ITS NEGATIVE IMPACT ON REVENUES. IT MAY ALSO BE THAT RECENT IMF REVIEW OF NIGERIA PRODUCED SOME SOBERING CONCLUSIONS REGARDING COUNTRY'S FINANCIAL POSITION. CANCELLATION OF ONE DIRECT REDUCTION STEEL MILL AND APPARENTLY FIRM DECISION TO MERGE TWO LNG PLANTS INTO ONE TO CUT COSTS ATTEST THAT FMG

IS MAKING SERIOUS EFFORT TO PUT ITS DEVELOPMENT EFFORTS ON
SOUNDER FOOTING.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: STEEL, PROGRAMS (PROJECTS)
Control Number: n/a
Copy: SINGLE
Sent Date: 22-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LAGOS09512
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770310-0891
Format: TEL
From: LAGOS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770838/aaaabfsg.tel
Line Count: 119
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 4870fa56-c288-dd11-92da-001cc4696bcc
Office: ACTION AF
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 19-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1529631
Secure: OPEN
Status: NATIVE
Subject: NIGERIA CANCELS ONE OF TWO DIRECT REDUCTION STEEL MILL PROJECTS IN ECONOMIZING MOVE
TAGS: BENC, EMIN, ENRG, GE, NI
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/4870fa56-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009